



## Iowa Department of **REVENUE**

### **MEMO**

RE: Iowa Leading Indicators Index April 2015 Report

From: Iowa Department of Revenue

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The Iowa Leading Indicators Index (ILII) decreased to 108.3 (100=1999) in April 2015 from 109.0 in March, a 0.6 percent drop. This is the largest monthly drop observed since March 2009. In April, the monthly diffusion index decreased to 25.0 with only two of the eight components experiencing positive changes.

The six-month annualized change in the index fell to -2.1 percent from -1.5 percent in March. This was the fifth consecutive negative value, with the measure this month exceeding the -2.0 percent change for the first time since October 2009, one of two metrics that signals a contraction in Iowa's economy. However, the six-month diffusion index rose to 50.0, a rebound from March's 37.5, thus exceeding the second of the two metrics. Four of the eight components (agricultural futures profits index, new orders index, residential building permits, and yield spread) experienced a decrease of greater than 0.05 percent over the last half a year. The increase in the six-month diffusion index reflects a rebound in average weekly manufacturing hours.

The negative signals in April continue to reflect the impact Iowa's agricultural sector has on Iowa's overall economy. As 2015 progresses, slipping livestock prices are no longer offsetting the weaker crop prices like they were in 2014. As these key farm commodity prices fall, farm income decreases and investment in farm equipment stalls. The declining demand in farm equipment is a drag on Iowa's manufacturing sector explaining weakness in the new orders index over the last six months. Furthermore, Iowa's agricultural stocks, which account for 34.5 percent of the Iowa stock market index's value, experienced further losses in April. The housing sector also pulled down the ILII with a sharp decline in multi-unit building permits driving the year-over-year decrease in new residential building permits.

Despite the six-month weakness in half of the ILII components, the labor force components of the index remained positive. In addition, employment continued in its fifth year of growth in April, with the fourth consecutive month of relatively strong 0.13 percent or higher growth, but the ILII's recent moves suggest that employment growth will slow into summer.

The two positive contributors in April were average weekly manufacturing hours and average weekly unemployment claims (inverted). Average manufacturing hours for April 2015 was reported as 42.2 hours, greater than the 41.5 hours in April 2014, and nearly an hour and a half higher than the monthly historical average (1996-2013). The 12-month moving average for average weekly manufacturing hours remained at or above 41.9 hours for the tenth straight month. The 12-month moving average of weekly unemployment insurance claims decreased in April for the third month in a row. Average monthly claims were down 7.3 percent from last April and 22.0 percent below the monthly historical average (1987-2013), the third consecutive month with claims below history by double digits. Coinciding with the decrease in initial unemployment claims, the Bureau of Labor Statistics

reported that the Iowa unemployment rate (a coincident indicator) in April decreased to 3.8 percent from 4.0 percent in March and 4.4 percent in April 2014.

There were six negative contributors to the ILII in April with the AFPI as the largest negative contributor for the third month in a row. The negative change in the AFPI this month was the largest since July 2009. Grains continued to show weakness with average soybean current crop futures prices 34.0 percent lower than last April and corn current crop futures prices down 25.1 percent. In May, Iowa State University released revised grain breakeven costs for the 2014 crop, squeezing estimated profits for corn but increasing the estimated profits for soybeans reported for June 2014 through January 2015. This revision resulted in a decrease in the level of the ILII for June 2012 through May 2014 and an increase in the level of the ILII for June 2014 through February 2015. Near futures contract hog prices for April were down 45.7 percent over last year, pushing down the 12-month moving average of expected profits for hogs to 30.3 cents per pound. Although cattle futures prices are off only 8.7 cents from a record seen five months ago and up 10.8 percent over last year, production costs are 25.0 percent higher than they were in April 2014, lowering expected cattle profits for the fourth month in a row. An avian flu epidemic arose in April and affected Iowa's poultry and egg producers. Although this occurrence will have a negative effect on economic activity, the poultry and egg industry represents a relatively small share of the Iowa farm economy and is not one of the commodities included in the AFPI.

New residential building permits was the second largest negative contributor to the index. The 12-month moving average of residential building permits fell a record 6.3 percent in April, dropping to 849, the lowest recorded 12-month moving average since June 2013. April 2015 permits were down 45.7 percent from April 2014, and were 33.6 percent below the historical average for April (1998-2013). Single unit housing decreased 28.6 percent from 903 permits in April 2014 to 645 permits in April 2015. Permits for buildings with 5 or more units decreased 73.7 percent from 559 permits in April 2014 to 147 permits in April 2015, driving the year-over-year decrease in Iowa.

The new orders index, which measures future manufacturing demand, was the third largest negative contributor to the index. Because the recorded 56.1 value fell short of the 72.2 value seen one year ago, the 12-month moving average for the index dropped to 57.55, the lowest the index has been since March 2010. The new orders index has been a negative contributor to the index every month since December 2013. Dr. Goss of Creighton University's Heider College of Business, who compiles the new orders index, expects the stronger U.S. dollar to negatively affect one of Iowa's chief exports, agricultural equipment, for the rest of the year. This will slow overall state growth. Despite the repeated negative signals from this component, the index remains above 50, signaling a continued overall expansion in demand for Iowa manufacturing output.

The other negative contributors were diesel fuel consumption, the Iowa stock market index, and the national yield spread. Taxable diesel gallons were 55.2 million gallons in April 2015, below the 57.9 million gallons in April 2014, the first report capturing the 10 cent per gallon tax increase. After the 12-month moving average of diesel fuel consumption registered a new record of 59.70 million gallons in March, the year-over-year drop pushed the 12-month moving average down 0.4 percent in April, yet it still registered as the 4<sup>th</sup> highest 12-month moving average at 59.47 million gallons.

For Iowa stocks, 21 of 33 stocks experienced positive gains, including 10 of the 11 financial-sector company stocks. However, agriculture stocks like CF Industries, Deere and Company, DuPont (Pioneer), Monsanto, and Tyson all experienced losses in April. Wells Fargo, which accounts for nearly 50 percent of the capitalization-weighted stock market index, also experienced a loss in April. The losses in those stocks offset the gains in the

majority of Iowa stocks. In April, the yield spread contracted with the long-term interest rate decreasing 10 basis points and the short-term interest rate decreasing 1 basis point from March. The short-term interest rate continues to be held near zero by the Federal Reserve. The long-term interest rate, however, continued a pattern of swings up and down as different economic indicators suggest future strength or weakness for the national economy.

The monthly Iowa Leading Indicators Index report is available on the [Department's website](#). Please contact Victoria L. Daniels at (515) 281-8450 or [Victoria.Daniels@iowa.gov](mailto:Victoria.Daniels@iowa.gov) if you have any questions about the report.